

**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NICHOLAS COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Nicholas County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$897 from the prior year, resulting in a deficit of \$698 as of December 31, 2009. Revenues decreased by \$3,512 from the prior year and expenditures decreased by \$2,615.

Report Comments:

- 2009-01 Expenditures Should Be Paid Within 30 Days Of Receipt
- 2009-02 The Sheriff Did Not Maintain Proper Documentation For Disbursements Of The Drug Account
- 2009-03 The Sheriff Should Deposit \$698 Of Personal Funds To Cover The Current Year's Deficit
- 2009-04 The Sheriff Needs To Deposit \$40,401 Of Personal Funds Into The Drug Forfeiture Account From Disallowed Expenditures From The 2008 Sheriff's Fee Audit
- 2009-05 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Tincher, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Nicholas County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 13, 2010 on our consideration of the Nicholas County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Larry Tinch, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 Expenditures Should Be Paid Within 30 Days Of Receipt
- 2009-02 The Sheriff Did Not Maintain Proper Documentation For Disbursements Of The Drug Account
- 2009-03 The Sheriff Should Deposit \$698 Of Personal Funds To Cover The Current Year's Deficit
- 2009-04 The Sheriff Needs To Deposit \$40,401 Of Personal Funds Into The Drug Forfeiture Account From Disallowed Expenditures From The 2008 Sheriff's Fee Audit
- 2009-05 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Nicholas County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 13, 2010

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$ 3,070	
Cabinet for Health and Family Services	10	
Sheriff Security Service	<u>6,152</u>	\$ 9,232

Circuit Court Clerk:

Fines and Fees Collected		4,917
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Fiscal Court		12,000
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County Clerk - Delinquent Taxes		425
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Commission On Taxes Collected		68,505
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Fees Collected For Services:

Auto Inspections	570	
Accident and Police Reports	162	
Serving Papers	17,995	
Carrying Concealed Deadly Weapon Permits	<u>1,899</u>	20,626

Other:

10% Tax Penalty Fee	13,264	
Miscellaneous	990	
Board of Education-School Security	19,759	
Add -On Fees	<u>1,243</u>	35,256

Interest Earned		550
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Borrowed Money:

State Advancement		<u>55,000</u>
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Total Revenues		206,511
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The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
 LEONARD T. GARRETT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries \$ 33,000

Part-Time Salaries 8,645

Other Salaries 15,544

Contracted Services-

Advertising 161

Vehicle Maintenance and Repairs 1,251

Materials and Supplies-

Office Materials and Supplies 2,232

Uniforms 704

Auto Expense-

Gasoline 10,606

Other Charges-

Dues 352

Postage 88

Bond 127

Computer Service 846

HB 577 4,390

Communications 650

Cell Phone 3,896

Employee Training 150

Miscellaneous 771 \$ 83,413

Debt Service:

State Advancement 55,000

Total Expenditures \$ 138,413

Net Revenues 68,098

Less: Statutory Maximum 68,796

Total Deficit For 2009 \$ (698)

The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Nicholas County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Nicholas County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 4. Lease

The Office of the Sheriff was committed to a lease agreement with IKON for a copier and fax machine. The agreement requires a quarterly payment of \$111 to be completed on April 27, 2012. The total remaining balance of the agreement was \$999 as of December 31, 2009.

Note 5. Drug Forfeiture Account

The Nicholas County Sheriff's Office maintains a drug forfeiture account. This account is funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in drug-related convictions. This account had a beginning balance of \$2,543. Receipts during the year were \$2 in interest income. Disbursements during the year totaled \$2,545 which was used to purchase law enforcement equipment for the Sheriff's Office. As of December 31, 2009, the ending balance was \$0. The drug forfeiture account was closed, effective May 31, 2009.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Tincher, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Nicholas County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated July 13, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nicholas County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2009-05 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nicholas County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations. 2009-01, 2009-02, 2009-03, and 2009-04.

The Nicholas County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Nicholas County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

July 13, 2010

COMMENTS AND RECOMMENDATIONS

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

STATE LAWS AND REGULATIONS:

2009-01 Expenditures Should Be Paid Within 30 Days Of Receipt

Seven invoices out of twenty tested, totaling \$3,474 were not paid within 30 days of receipt. KRS 65.140(2) states, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice. It continues to state that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added. We recommend the Sheriff pay all bills within 30 working days as required.

Sheriff's Response: Will do if funds are available.

2009-02 The Sheriff Did Not Maintain Proper Documentation For Disbursements Of The Drug Account

During 2009, the Sheriff did not maintain adequate documentation for receipts and expenditures from the drug account. The Sheriff only maintained bank statements and some invoices. The Sheriff did not maintain minimum documentation as adopted by the Kentucky Sheriff's Association. This documentation at a minimum consists of detailed monthly expenditure reports and/or log maintenance. We recommend the Sheriff implement the guidelines and forms to be utilized for Sheriff's record keeping systems adopted by the Kentucky Sheriff's Association.

Sheriff's Response: Will do.

2009-03 The Sheriff Should Deposit \$698 Of Personal Funds To Cover The Current Year's Deficit

For the current year, the Sheriff's office has liabilities that exceed their assets by \$698. We recommend the Sheriff personally reimburse the Sheriff's fee account \$698 for the current year's deficit.

Sheriff's Response: Will do.

2009-04 The Sheriff Needs To Deposit \$40,401 Of Personal Funds Into The Drug Forfeiture Account From Disallowed Expenditures From The 2008 Sheriff's Fee Audit

As a follow up on prior year issues, the Sheriff personally still owes \$40,401 for disallowed expenditures from the Drug Forfeiture Account. We recommend the Sheriff reimburse the Drug Account \$40,401 for these disallowed expenditures and resolve this issue.

Sheriff's Response: No Response.

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2009-05 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

All employees of the Sheriff's office collect receipts. The bookkeeper prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The bookkeeper prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The Sheriff reviews bank reconciliations prepared by the bookkeeper and this is documented by him initialing the reconciliation. The bookkeeper also prepares checks for all disbursements including payroll and posts the items to the disbursements ledger. The Sheriff signs all checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. The Sheriff should implement and document that he is performing the following steps to strengthen internal controls:

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences noted should be reconciled. The Sheriff should document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should review the quarterly financial report and compare amounts reported to the receipts and disbursements ledger. The Sheriff should document this by initialing the receipts and disbursements ledgers.

Sheriff's Response: Have small office staff but will do.

